



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 12/14/1999

GAIN Report #UK9064

United Kingdom

Retail Food Sector Report

1999

Cleared by:
Thomas A. Hamby
U.S. Embassy

Drafted by:
Steve R. Knight

Report Highlights: The UK retail sector is worth in excess of US\$80 billion annually. With UK consumers sharing many commonalities with those in the U.S. the UK offers excellent opportunities, particularly for consumer ready and high end products. The retail sector is concentrated in the hands of a small number of large multiples. These companies are continuing to expand into all areas of the retail chain. As such they offer the best opportunities for U.S. exporters wishing to find a foothold for their product.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
London [UK1], UK

Table of Contents

I: Market Summary	Page 2 of 11
II: Road Map for Market Entry	Page 4 of 11
A: Superstores & Supermarkets	Page 4 of 11
Entry Strategy	Page 4 of 11
Market Structure	Page 5 of 11
Company Profiles	Page 6 of 11
B: Convenience Stores	Page 6 of 11
Entry Strategy	Page 6 of 11
Market Structure	Page 7 of 11
Company Profiles	Page 7 of 11
C: Traditional Markets	Page 7 of 11
III: Competition	Page 8 of 11
IV: Best Product Prospects	Page 9 of 11
A: Products present with good sales potential	Page 9 of 11
B: Products not present in quantity but good sales potential	Page 9 of 11
C: Products not present because of significant barriers	Page 10 of 11
V: Post Contact and Further Information	Page 11 of 11

SECTION I: Market Summary

The UK population has grown steadily in recent years, recorded at just over 59.2 million in 1998. That said, the population is stabilizing, with some forecasters (including the United Nations) suggesting it will go into steady decline in the coming years, reaching 57 million by 2050. Almost 90 percent of the UK population is to be found in England, one of the most urbanized areas in Europe. Of this total, over 7 million people live in Greater London (the area within the M25 ringroad).

UK: Population Trends, 1994 -1998

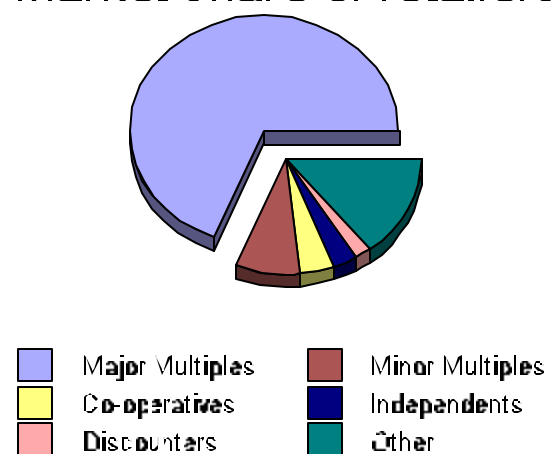
	‘000s				
	1994	1995	1996	1997	1998
Males	28,592	28,727	28,856	28,990	29,128
Females	29,803	29,878	29,946	30,019	30,108
Total	58,395	58,606	58,801	59,009	59,237

Source: Office for National Statistics, 1999

The UK population is getting older; in 1998, 15.7 percent of the population was 65 years of age or older. There is also an increasing proportion of working women and the number of one-person households is on the increase. This is affecting the demands being placed on the retail sector. The UK consumer is now demanding more convenience foods (including both fresh and frozen ready meals), a greater variety and more specialty foods. Healthy eating, or "watching what you eat", is a growing trait as is the popularity of vegetarian and organic foods. Unprocessed and semi-processed products are decreasing in popularity. Although price remains important, disposable incomes are on the rise (average weekly earnings rose 4.4 percent to US\$612 in 1998) and the UK consumer is becoming increasingly discerning with quality an important concern.

The UK food retailing market is not only highly advanced (in terms of logistics, marketing, pricing and merchandising) but is also one of the most concentrated in Europe. The UK has experienced considerable movement towards the "one-stop shopping" concept with several large multiple retail chains dominating, to the detriment of the independent retailer. Data published by Mintel suggest that of the UK's total retail food sales bill of BPS50.31 (US\$81.5) billion in 1998, nearly 70 percent of these sales were at the five major multiples. Having led a shift from the high street to out-of-town stores, the large retailers are now tackling the less profitable parts of the retail chain in order to increase their market dominance. This includes the opening of both convenience stores (in an effort to get a bigger slice of the local top-up

Market share of retailers



shopping basket sales) and a return to mid-size supermarkets in town centers. There has also been a build up in the presence of the major multiples in the lucrative forecourt (or gas-mart) trade.

Advantages and Challenges Facing the U.S. Products in the UK

Advantages	Challenges
Market dominated by few retailers with strong market penetration. Sophisticated replenishment systems mean U.S. product would be widely distributed.	Retailers demand significant volume and their concentration can make market access difficult initially. Trial listings must give results in a short time or product will be de-listed.
There are a large number of specialist importers.	The UK has well-established brands for mainstream products. Brand building costs are substantial.
The U.S. has a good brand image in the UK.	Strict (EU) regulation. Labeling/ingredient requirements.
The country is English speaking.	Culture clash - U.S. exporters must appreciate that the UK is not the 51 st state. Negative UK reaction to biotechnology and other agricultural practices commonplace in the U.S. highlight the importance of understanding the market. Indeed consumers are more wary of imports than of domestic product.
The U.S. is a popular destination for the UK tourist and familiarity with U.S. products is widespread.	Popularity of specialty products from many EU countries and U.S. competitors is high, eg French cheeses, Spanish citrus, Italian pasta, South African wines. In addition to higher transport costs, the U.S. has to compete with the duty free nature of intra-EU trade.
Strong purchasing power, sophisticated market.	High marketing costs.
Strong interest in innovative products.	

SECTION II: Road Map for Market Entry

SUBSECTION A: Superstores & Supermarkets

Entry Strategy

The multiples offer the best opportunity for introducing U.S. product onto the UK market. Most of the multiples prefer to let importers and distributors handle the detail and specialist nature of international importing. If a U.S. exporter believes that a product has potential in the UK, the services of a UK broker or agent will almost certainly be required. It is difficult to maximize long-term, export business without a local 'representative' who can also provide guidance on business practices and trade related laws. Some retailers, who deal in large volumes of produce, occasionally import direct. In these cases the retailer has a buyer or produce technician in the United States who places the order.

The very wide range of agents and brokers in the UK offer varying amounts of trade and consumer marketing expertise, warehousing, distribution facilities etc. Many importers of non-frozen and chilled foods have in-house distribution networks and warehousing facilities, while smaller importers contract out. Many fresh produce importers have controlled atmosphere warehousing facilities and even packing houses catering to the growing retail demand for prepackaged, and sometimes trimmed, fruits and vegetables. Almost all importers of frozen and chilled foods contract out to specialized storage, handling, and distribution companies.

Some of the largest agencies will only consider a product if it has large volume potential in the multiple supermarkets and is backed by substantial marketing support. Others specialize entirely in independent grocer or food service distribution. Costs vary widely too - some agencies may ask for a start-up fee of between BPS 10,000-100,000 (\$16,200-162,000), some are commission only agents (can be anything from 2.5 - 10 percent), others may seek a fixed fee which switches to commission when sales have reached a target level. A "full service" brokerage rate may range anywhere between 17 and 25 percent.

Marketing costs from FOB level to retail may include some or all of the following:

- Sea/Air freight costs
- Insurance costs
- Import duty (if applicable)
- Commission or margin to the importer
- Customs entry and clearance
- Handling charge to importer (can be a small charge deducted from wholesale price)
- Transport to packhouse and on to depot
- Packaging and labeling
- Overheads, wastage and shrinkage allowance
- Mark-up by supermarket retailer (30-70%)

The Agriculture Office in London maintains detailed listings of potential importers and other pertinent information on how to introduce your product in the UK market.

Market Structure

The dominance of the five major retailers has continued to rise year on year since 1995. In 1998, the five major retailers accounted for nearly 68.9 percent of total retail sales. Tesco is the leading UK supermarket, with 20.5 percent of the market, followed by Sainsbury (18.0 percent), Asda/Wal-Mart (11.9 percent), Safeway (9.4 percent) and Somerfield (9.0 percent). Tesco is the strongest in the south of the country, Sainsbury in London, Asda in the North East and Safeway in Scotland.

Superstores in the UK are smaller than their counterparts in Germany or France, much of this a result of tight UK planning law: the stores of the two major players, Tesco and Sainsbury, average around 3,500m². The aforementioned restrictions and the resulting limited availability of suitable sites has fueled the move back towards smaller stores by some of the big players.

With sophisticated replenishment systems, the UK leaders are able to offer full food range in smaller stores and compete more effectively with the minor multiples, whose share of the market remains fairly static, accounting for 7.9 percent of retail sales in 1998. The two leading minor retailers are Morrisons (3.5 percent) and Iceland (2.7 percent).

The neighborhood has traditionally been the home of the independent retailer. However, here too the major retailers are making an impact. Tesco and Safeway have developed forecourt (gas-mart) based supermarket formats while Sainsbury has opened "Local" stores.

The discount market, predominantly Lidl and Netto, has been showing recent growth in the UK. However, the discount market's 2 percent share of retail sales is not expected to show much more growth following the introduction of low cost ranges by some of the major multiples. This move is yet another example of the moves made by the major retailers who are anxious to maintain their stranglehold on the UK retail market.

A key way in which UK retailers stand out against their Continental counterparts is with their own brands. Each retailer looks on the business as a brand. All of the major multiples and some of the smaller retailers have a substantial number of private (or own) label lines. The market leader Tesco has 45.9 percent of its total product lineage as own label, with Sainsbury in front with 50.4 percent, Asda with 46.0 percent, Safeway with 40.5 percent and Somerfield with 37.4 percent (figures are at March 1997). Goods carrying the company's brand are not necessarily cheap but, rather, are often quality goods competing with the brand leader. A good example is Tesco's "Finest" brand. The quality and value for money of these brands are then used by the retailers as marketing tools to attract custom.

Company Profiles

Retailer Name	Outlet Type	Operating name	Store Type	Ownership	Sales CY98 (\$ mil)	No. of Outlets	Location	Purchasing Agent Type
Tesco	Major Retailer	Tesco Superstore Tesco Express Tesco Metro Tesco Compact	Large Store Gas Mart Mini Metro Town Store	UK	24010	479 15 40 51	Nationwide South Nationwide Nationwide	Importer, Direct
Sainsbury	Major Retailer	Sainsbury's Sainsbury Local Savacentre	Large Store Mini Store Large Store	UK	20380	391 2 13	Nationwide London Nationwide	Importer Direct
Asda/Wal-Mart	Major Retailer	Asda Dales	Large Store Discount Store	US	11401	210 7	Nationwide Nationwide	Importer Direct
Somerfield	Major Retailer	Somerfield/Gateway Food Giant Kwik Save	Town Store Discount Store Discount Store	UK	10185	533 24 871	Nationwide Nationwide Nationwide	Importer, Direct
Safeway	Major Retailer	Safeway	Large Store	UK	9953	422	Nationwide	Importer, Direct
Marks & Spencer	Variety Store	Food Section	Large Store	UK	5178	289	Nationwide	Importer, Direct
Morrisons	Minor Retailer	n/a	Large Store	UK	3765	95	England	Importer, Direct
Waitrose	Minor Retailer	n/a	Large Store	UK	2742	117	England	Importer, Direct
Iceland	Minor Retailer	n/a	Large Store	UK	2568	734	Nationwide	Importer, Direct
Aldi	Discounter	n/a	Large Store	Germany	1036	180	All but the South	Importer, Direct
Budgens	Minor Retailer	n/a	Large Store	UK	634	177	Midlands & South East	Importer, Direct
Netto	Discounter	n/a	Large Store	Denmark	486	113	England	Importer, Direct
Lidl	Discounter	n/a	Large Store	Germany	448	100+	Nationwide	Importer, Direct

As mentioned previously, UK retailers generally prefer to purchase through importers. However, the Agricultural Office in London does hold details of the buying procedures of individual retailers should

exporters still prefer to make direct contact.

SUBSECTION B: Convenience Stores

Entry Strategy

Due to its fragmented nature, the convenience sector offers much more limited opportunities for the U.S. exporter. However, those stores affiliated to a symbol tend to be serviced by the same importers who supply the multiples. Again, success in introducing a product would hinge on local representation and personal contact. The local representative should be able to supply market knowledge, up-to-date information and guidance on business practices and trade related laws, sales contact with existing and potential buyers, market development expertise, and the distribution system. The London Agriculture Office maintains detailed listings of potential importers and other pertinent information on how to introduce your product in the UK market.

Market Structure

Today's co-operative and independent trade is the remainder of what once was the dominating sector of the UK retail trade. While the co-operatives operate under a number of formats ranging from smaller stores through to superstores, the majority of independents are so-called convenience stores, about 15 percent of which are affiliated to a symbol group such as Spar or Mace. Both the co-operatives and the independents are in decline as a result of the growth and resultant power of the major multiples. Where they once gained trade by opening "all-hours", this advantage is slowly diminishing as more and more of the major multiple stores operate 24 hours a day. While many do have the advantage of their convenient locations, this status too is being eroded. With many of the major multiples developing systems whereby orders can be placed over the telephone, by fax and via the Internet, all with home delivery options available, the convenience sector is expected to continue to decline.

Company Profile

Retailer Name	Outlet	Ownership	Sales CY98 (\$mil)	No. of Outlets	Location	Purchasing Agent Type
Spar HQ: London T: 0181 863 5511 F: 0181 863 0603	Convenience	UK Independents	2708	2651	Nationwide	Importer, Group Buyer
Cost Cutter HQ: Yorkshire T: 01904 488663 F: 01904 488540	Convenience	UK Independents	820	720	Nationwide	Importer, Group Buyer

Mace HQ: Buckinghamshire T: 01753 893331 F: 01753 893332	Convenience	UK Independents	820	700	Nationwide	Importer, Group Buyer
Alldays HQ: London T: 01703 645000 F: 01703 645111	Convenience	UK Independents	531	256	Nationwide	Importer, Group Buyer

SUBSECTION C: Traditional Markets

The very small "mom and pop" shops are in permanent decline and offer little or no opportunity for the U.S. exporter.

SECTION III: Competition

The EU is the main competitor to U.S. consumer orientated food imports. EU food exporters have the advantage of relatively low transportation costs and fast delivery times. Their product does not face import duties nor does it face major ingredient or labeling requirements. This goes some way to explain that of the US\$28 billion worth of food and beverage products the UK imported in 1998 around 63 percent of these imports originated from other EU member states. Principally these were sourced from the Netherlands, France, Ireland, Denmark, Germany, Italy and Spain. Fruits and vegetables are still the primary intra-EU import, constituting over 25 percent of EU shipments. Second to these are beverages, which accounted for 18 percent of EU shipments during 1998.

The U.S. is the largest third country supplier to the UK, supplying around 5.4 percent of all UK food and drink imports. New Zealand, Brazil, Iceland, Mauritius, South Africa, Canada, India, Kenya, Thailand and Israel round out the other top third country suppliers.

1998 UK Imports of Agricultural Products (US\$million, CIF)

Imports	Total Imports	Intra EU	Extra EU	U.S.	U.S. Share (%)
Live Animals	372	182	190	66	17.7
Meats	3,358	2,574	784	16	0.5
Dairy & Eggs	1,879	1,628	251	8	0.4
Fish	2,110	459	1,651	109	5.2
Cereals	1,902	1,512	391	132	6.9
Vegetables & Fruit	6,803	4,495	2,308	361	5.3
Sugar & Honey	1,267	400	867	21	1.6
Coffee, Tea, Cocoa & Spices	2,109	942	1,168	19	0.9
Animal Feed	1,142	523	618	221	19.4
Other Foods	1,480	1,303	177	74	5.0

Beverages	4,308	3,210	1,098	274	6.4
Tobacco, etc	782	344	439	52	6.7
Oilseeds	526	126	399	149	28.3
Total	28,039	17,698	10,341	1,501	5.4

Live animals includes high value horses

Source: Overseas Trade Statistics of the United Kingdom

SECTION IV: Best Product Prospects

A. Products present in the market which have good sales potential

Key ongoing markets for U.S. products which show good growth potential are canned salmon, meal accompaniments, cooking sauces, vegetable and salad oils and dressings, confectionery, dips and salsa, frozen foods, exotic meats, wine and beer.

U.S. exports of consumer-oriented product to the UK (US\$ thousands)

Product	1996	1997	1998
Snack Foods (excl. Nuts)	17,353	38,635	48,403
Breakfast Cereals & Pancake Mix	2,608	4,131	3,996
Red Meats, Fresh/Chilled/Frozen	13,533	15,624	24,891
Red Meat, Prepared/Preserved	1,127	335	684
Poultry Meat	3,992	4,413	1,210
Dairy Products	7,993	10,552	11,436
Eggs & Products	2,562	2,478	4,737
Fresh Fruit	54,049	62,018	65,021
Fresh Vegetables	12,806	17,943	20,629
Processed Fruit & Vegetables	120,178	110,074	105,392
Fruit & Vegetable Juices	19,675	22,476	23,373
Tree Nuts	80,941	59,132	59,623
Wine & Beer	102,509	123,841	164,243
Nursery Products & Cut Flowers	2,717	3,539	2,806
Pet Food (Dog & Cat Food)	36,844	24,302	23,259
Other Consumer-Oriented Products	50,896	87,483	82,510
Total	529,783	586,976	642,213

Source: BICO

B. Products not present in significant quantities but which have good sales potential

The demand for convenience foods, estimated to account for around 40 percent of household food expenditure, continues to be a major factor driving development of the UK food and beverage industry.

Increasing health awareness is spurring on the market for low fat/low calorie foods and vegetarian foods. Indeed, many supermarkets now label their products with healthy symbols, helping consumers make “healthy” purchases.

Vegetarian prepared foods are now becoming mainstream, able to compete head to head with other ready meals and are no longer a niche market. Currently, mass market appeal for a prepared vegetarian food is gained through products based on traditional recipes with the animal ingredients having been substituted. Opportunities exist for U.S. products that continue this theme, but, also for those that are innovative recipe formulations which taste wholesome.

Also, estimates suggest that around 70 percent of organic food consumed is imported. While fruits and vegetables are the most common organic produce sold at retail level, other organic foodstuffs available include pulses, grains, flour, pastas, cheese, coffee, chocolate, herbs, tea, baby food and wine. This sector offers a very real opportunity for U.S. product.

C. Products not present because they face significant barriers

Market access is the most important constraint impacting sales of U.S. agricultural food products to the UK. As is the case of other EU member states, the potential for many U.S. imported food products is constrained and in some cases precluded by EU policy. Beef (from hormone treated cattle) and poultry are both examples of products subject to prohibitive import requirements unique to the EU.

SECTION V: Post Contact and Further Information

If you have any questions or comments regarding this report or need assistance exporting to the United Kingdom, please contact the USDA office in London at the following address:

United States Department of Agriculture
Embassy of the United States of America
24 Grosvenor Square
Box 48
London
W1A 1AE

Tel: +44 20 7408 8063/8040

Fax: +44 20 7408 8031

email: aglondon@fas.usda.gov

Home page: www.usembassy.org.uk/ukfas.html

Please contact our home page for more information on exporting U.S. food products to the United Kingdom, product briefs on the market potential for U.S. food products, upcoming Trade Shows and a complete listing of upcoming activities designed to promote your product in the UK. Importer lists and further specific details on individual retailers are available from our office to exporters of U.S. food products.

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page: <http://www.fas.usda.gov>.